



# *Changing Employment Incentives and Claiming Behavior*

Alicia H. Munnell

Peter F. Drucker Professor, Boston College Carroll School of Management  
Director, Center for Retirement Research at Boston College

“Policies to Facilitate Employment for Older Americans”

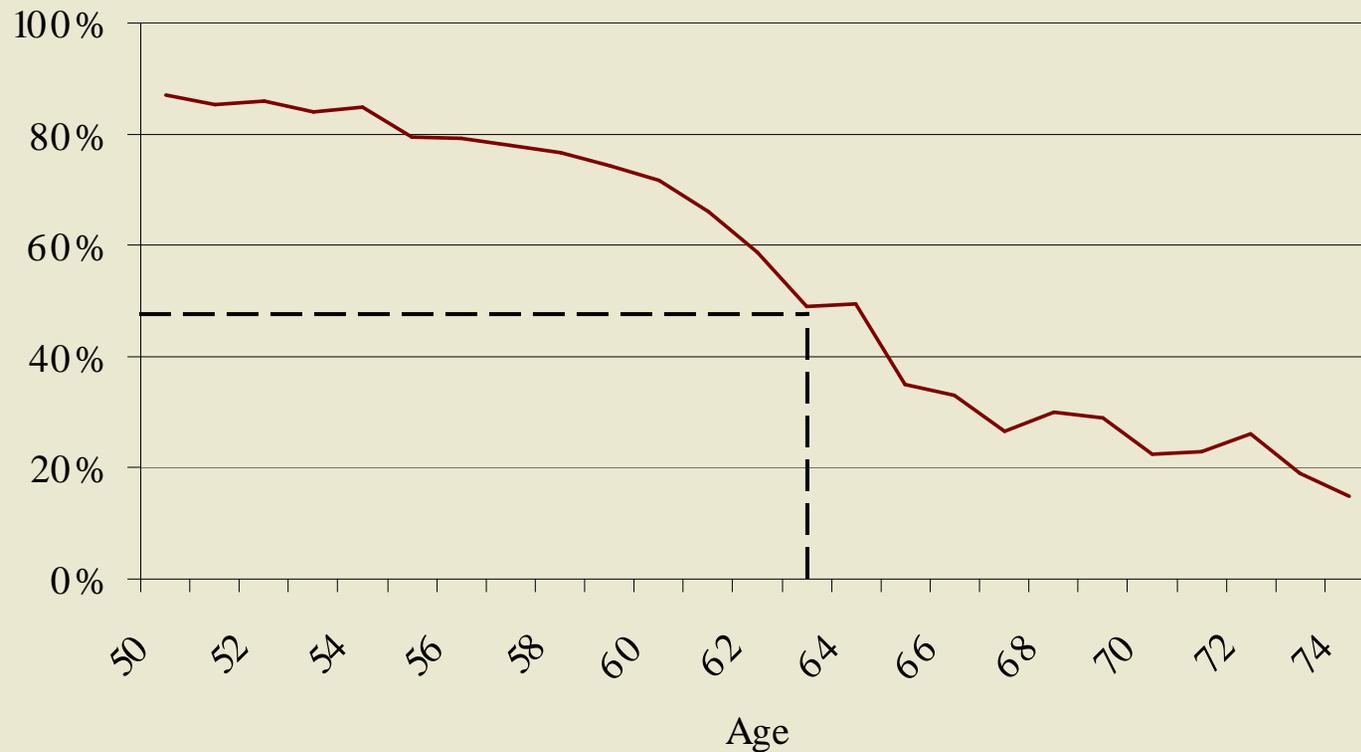
Social Security Advisory Board

Washington, DC

January 18, 2008

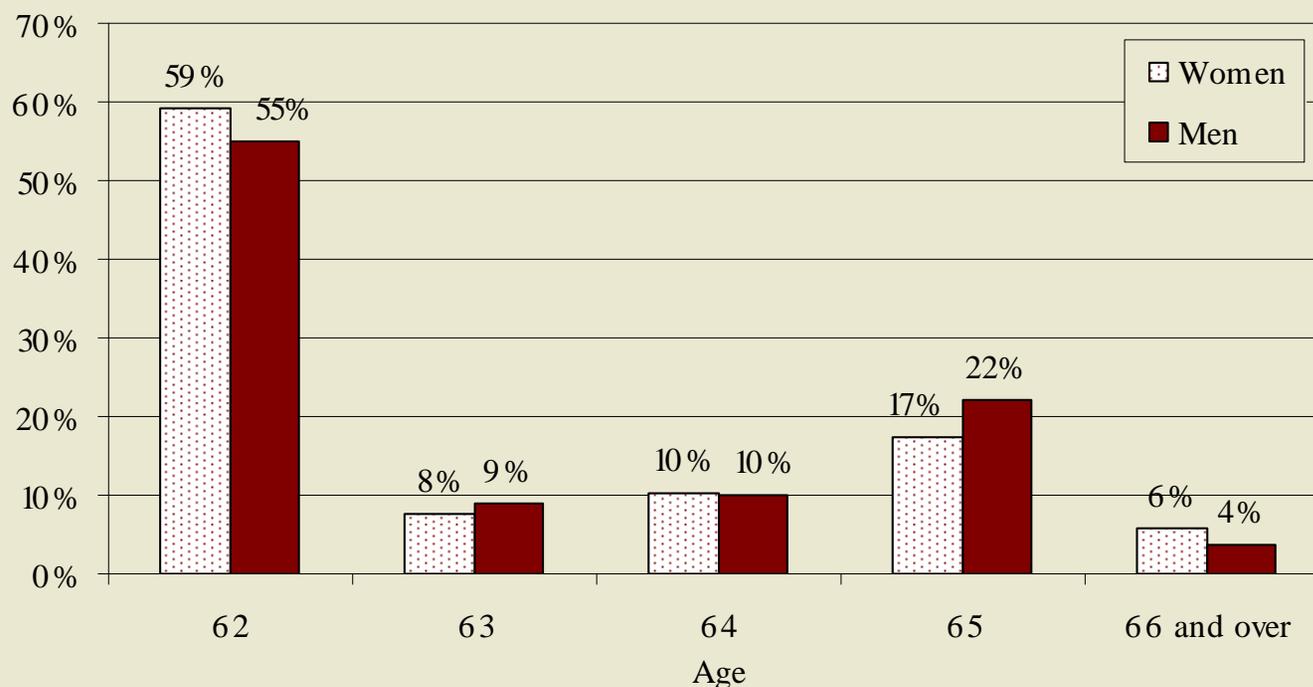
# Most people retire in their early sixties.

Labor Force Participation of Men by Age, 2005



# And most people claim Social Security benefits early.

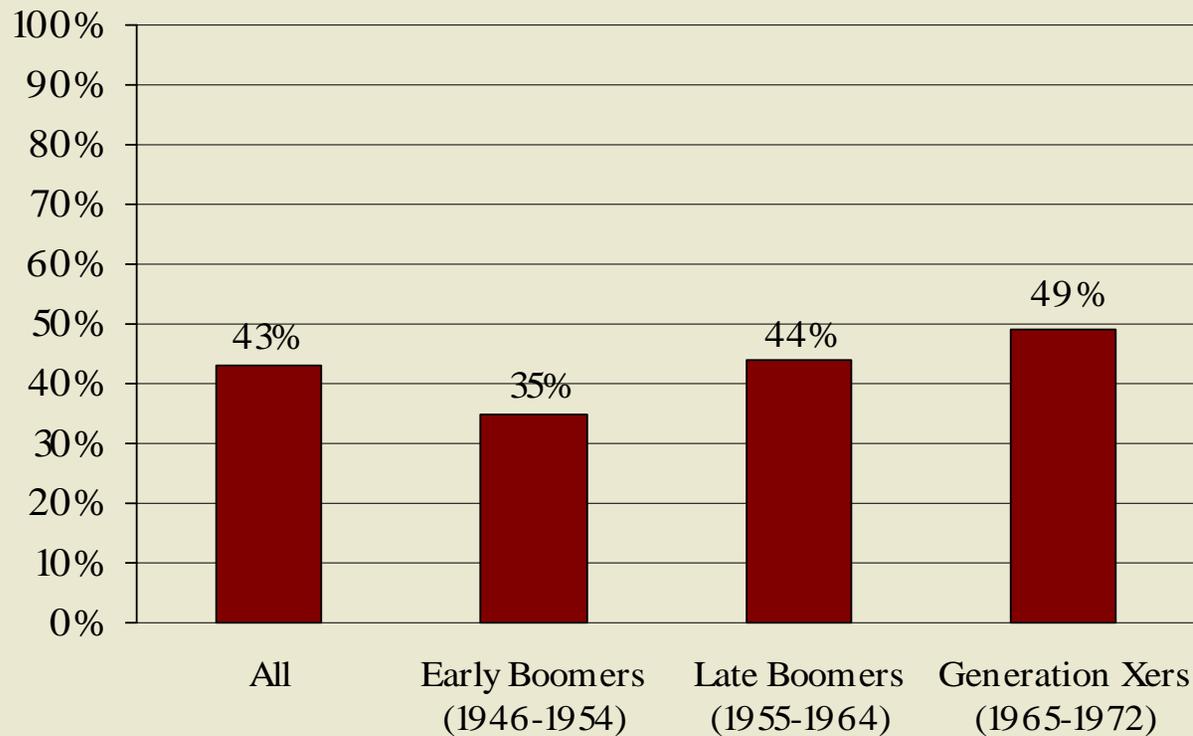
Percent Distribution by Age of Initial Social Security Benefit Awards, 2005



Source: Author's calculations and U.S. Social Security Administration. 2007. *Annual Statistical Supplement, 2006*. Washington, DC.

# These choices put a large number of people ‘at risk.’

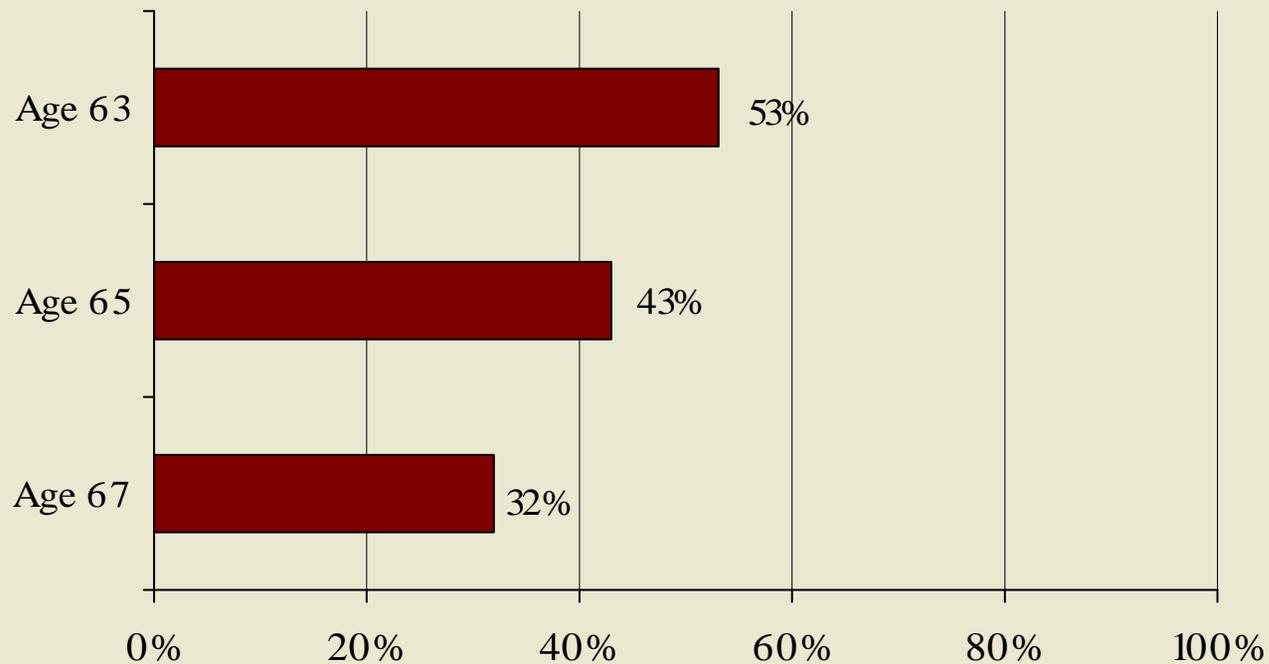
Percent of Households Unable to Maintain Pre-Retirement Living Standard, by Birth Cohort



Source: Center for Retirement Research at Boston College. 2006. *Retirements at Risk: A New National Retirement Risk Index*. Chestnut Hill, MA.

# Working longer dramatically improves the picture.

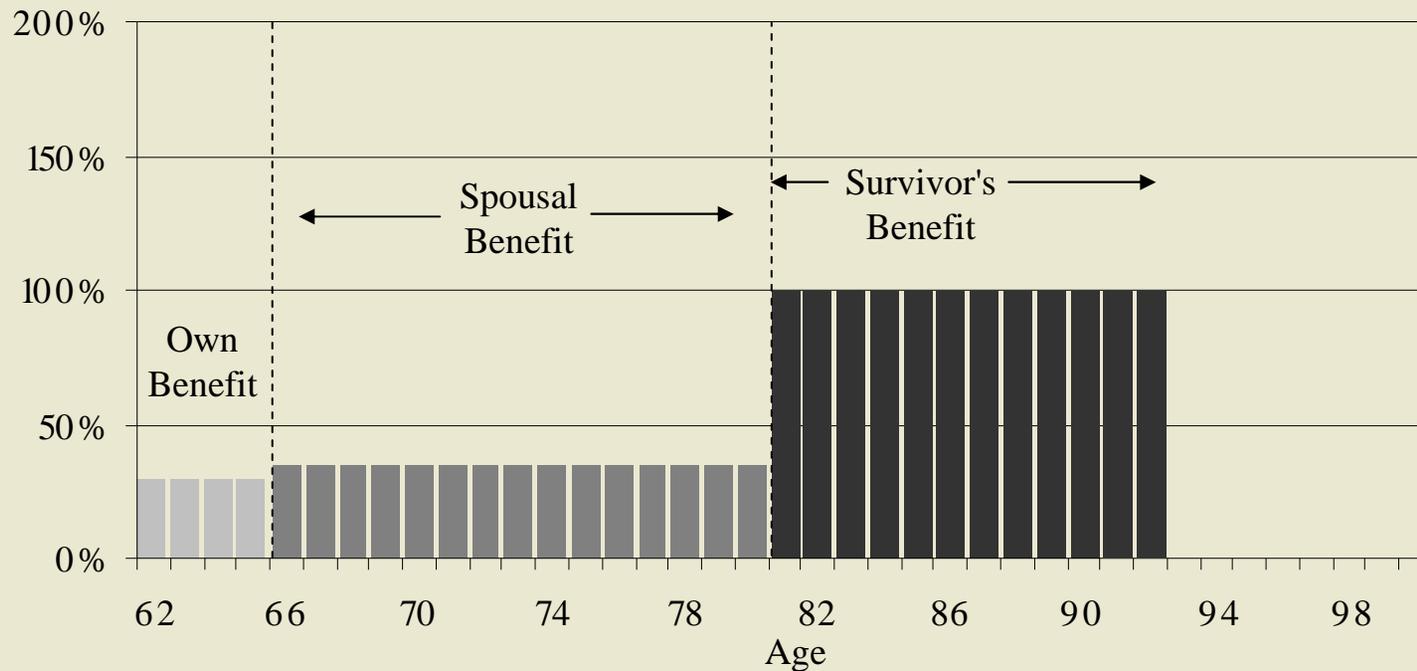
Percent of Households “At Risk” by Assumed Retirement Age



Source: Center for Retirement Research at Boston College. 2006. *Retirements at Risk: A New National Retirement Risk Index*. Chestnut Hill, MA.

# And claiming later enhances security for a worker's surviving spouse.

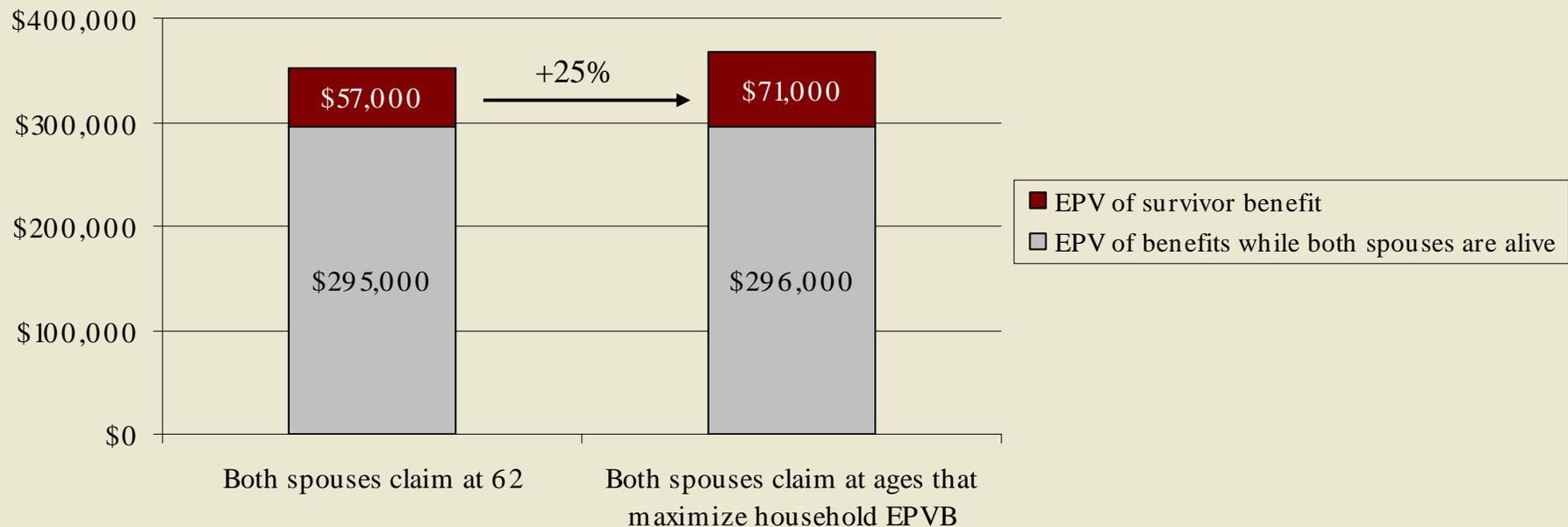
Social Security Benefits as a Percent of Husband's Primary Insurance Amount (Stylized Profile)



Source: Alicia H. Munnell and Mauricio Soto. 2007. "When Should Women Claim Social Security Benefits?" *Journal of Financial Planning* 20(6): 60-69.

# Claiming later can mean a large increase in the survivor's benefit.

Size and Allocation of Household Social Security Wealth, by Claiming Ages



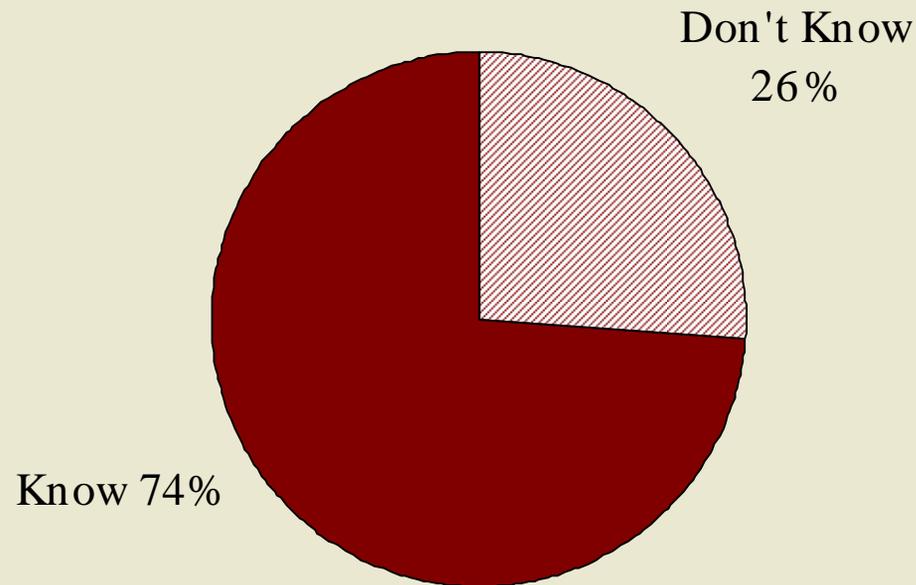
Source: Steven A. Sass, Wei Sun, and Anthony Webb. 2008 forthcoming. "Why Do Married Men Claim Social Security Benefits So Early? Ignorance, Caddishness, or Something Else?" *Issue in Brief*. Chestnut Hill, MA: Center for Retirement Research at Boston College.

# Three main ideas for improving work and claiming decisions:

- Conduct educational campaign
- Increase hurdles to early claiming
- Raise the EEA

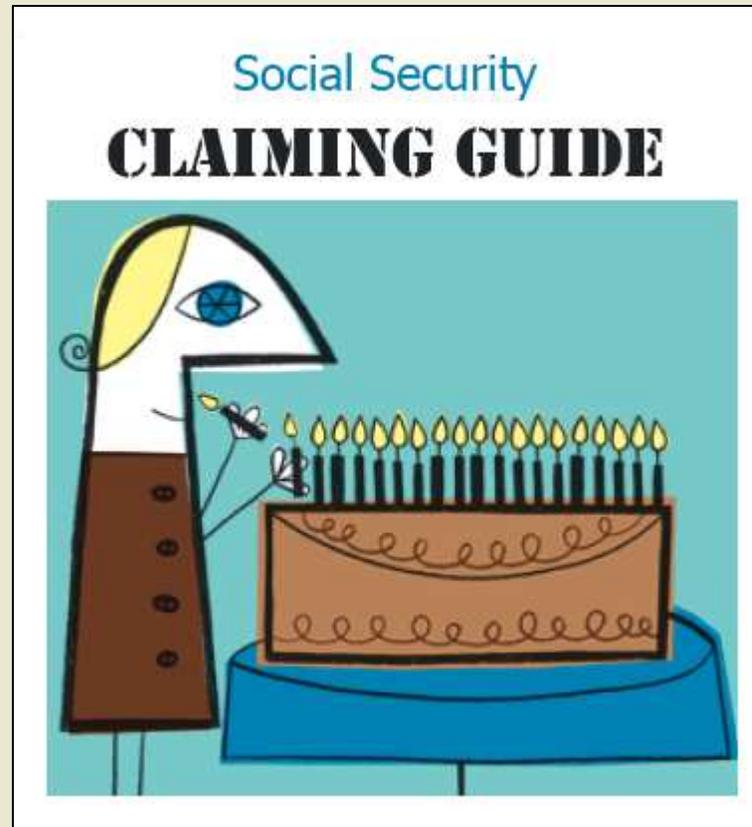
# An educational campaign would reduce ignorance and myopia.

Percent of People Who Know and Do Not Know That Their FRA benefit Will Be More Than Their EEA Benefit, of Those Who Provide Estimates of These Benefits, 2004



*Source:* Author's calculations based on Adeline Delavande and Robert J. Willis. 2007. "Managing the Risk of Life." Working Paper 2007-167, Table 4. Ann Arbor, MI: Michigan Retirement Research Center.

Education: SSA could create a Social Security claiming guide.



# Education: SSA could conduct advertising and media outreach.



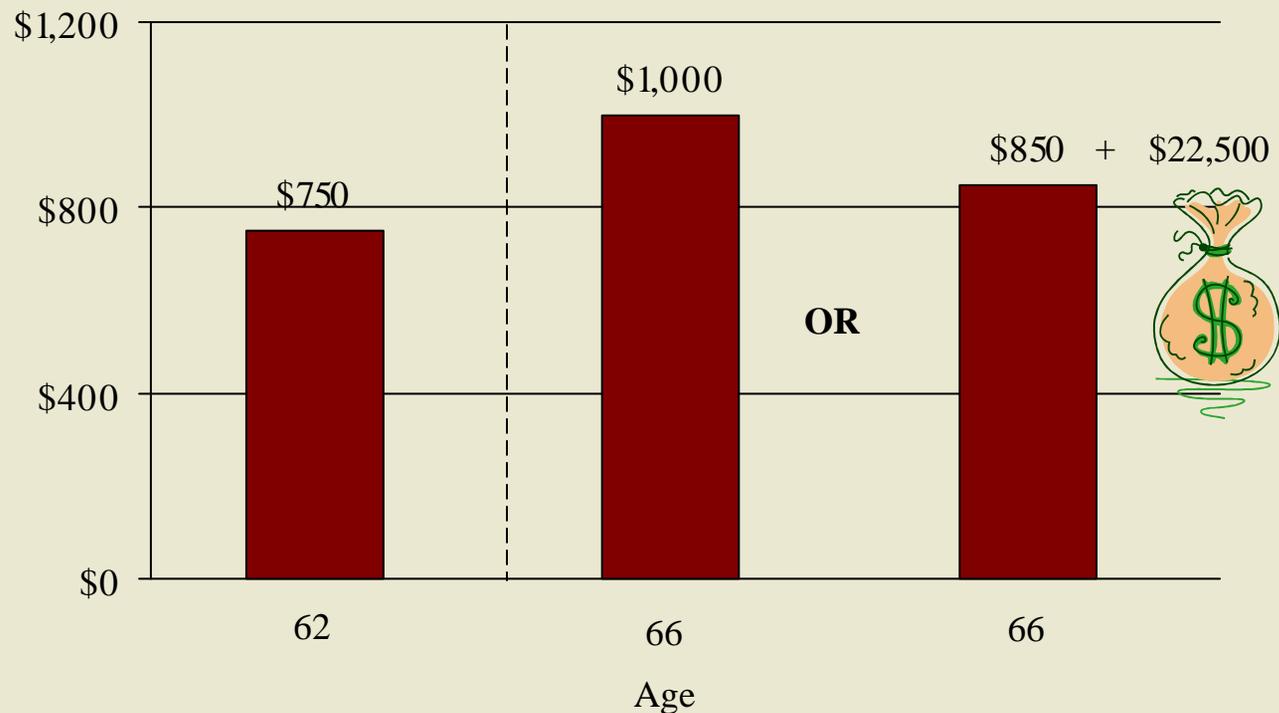
# Education: Turn Social Security's planned debit card into a "saving" card.

Benefits not claimed today produce much higher income tomorrow.



# Education: Create incentive to delay by paying lump sum.

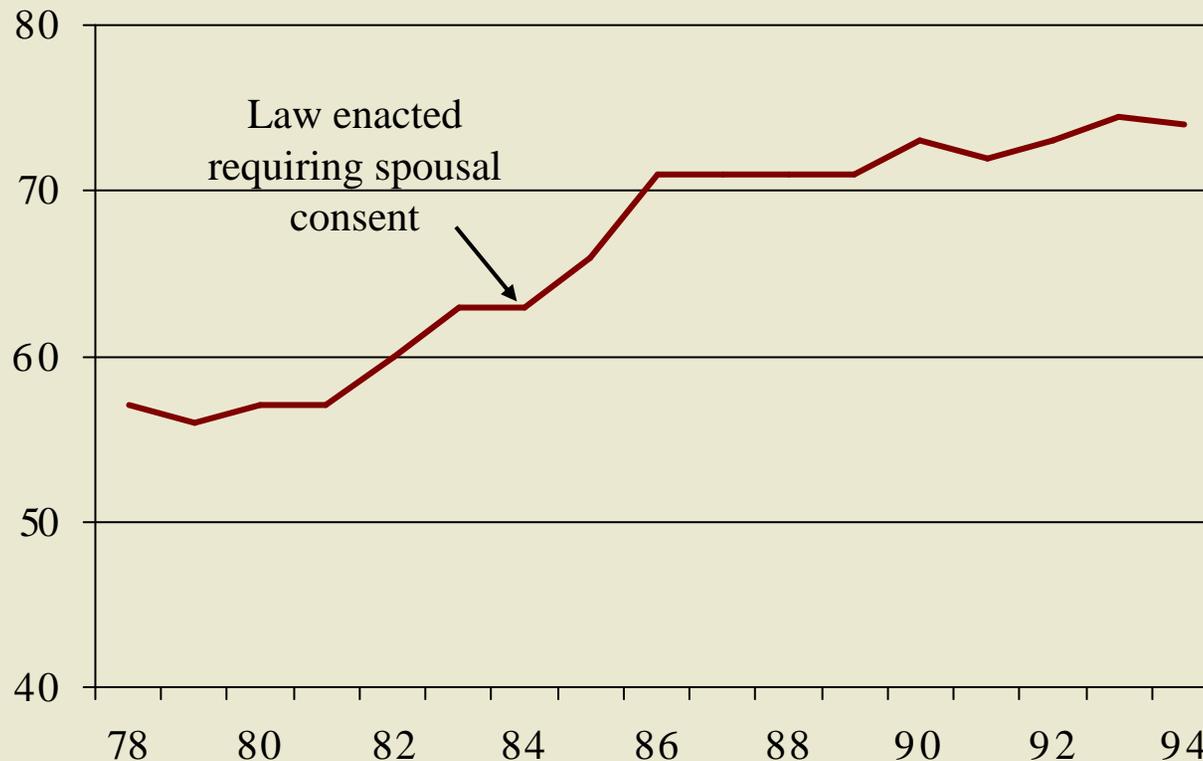
Monthly Benefit Amount by Age and Claiming Option



Source: Author's Illustration.

# Increase hurdles: Require lower earning spouse's permission to claim.

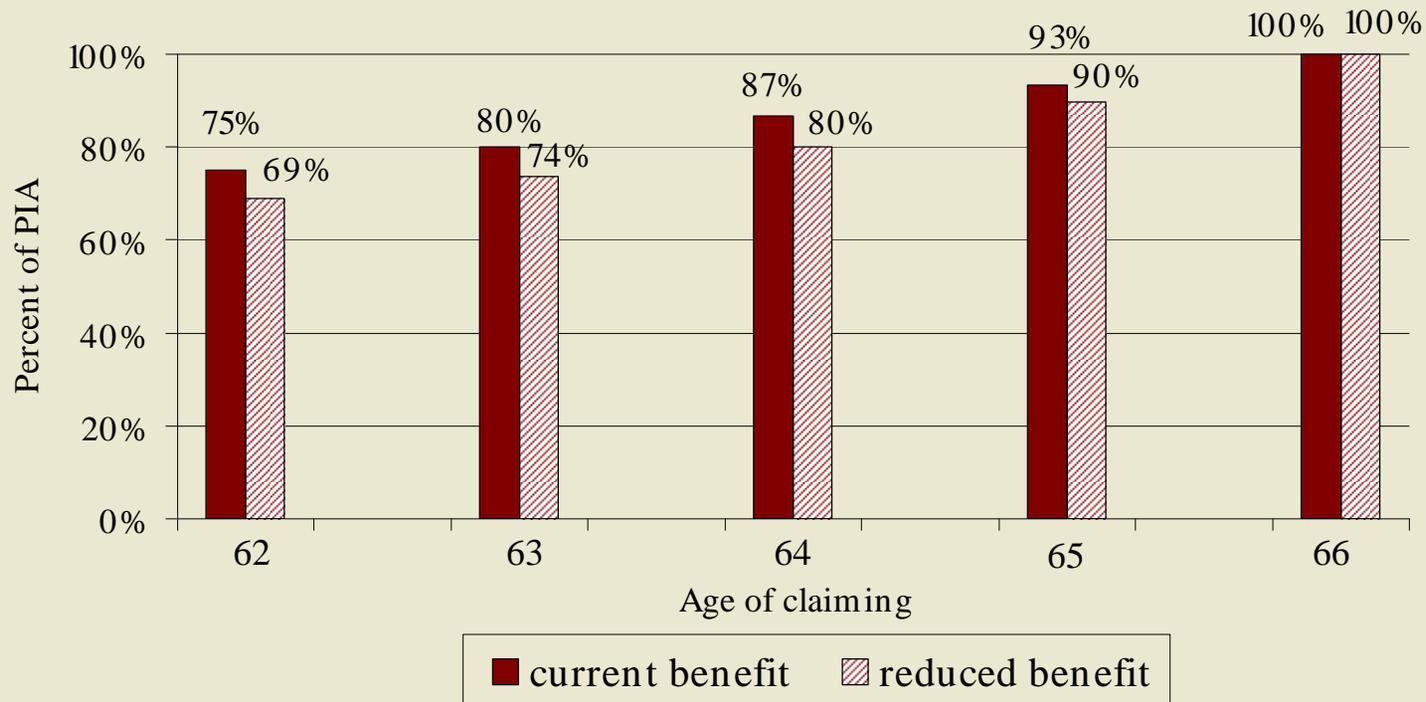
TIAA-CREF Participants Choosing Survivor Annuities, 1978 – 1994



Source: Saku Aura. 2001. "Does the Balance of Power Within a Family Matter? The Case of the Retirement Equity Act." IGIER Working Paper 202. Milan, Italy: Innocenzo Gasparini Research Institute.

# Increase hurdles: Divide the primary earner's benefit in two to preserve spouse's benefit.

Early Retirement Benefit Reduction to Preserve Survivor Benefit at PIA, FRA=66

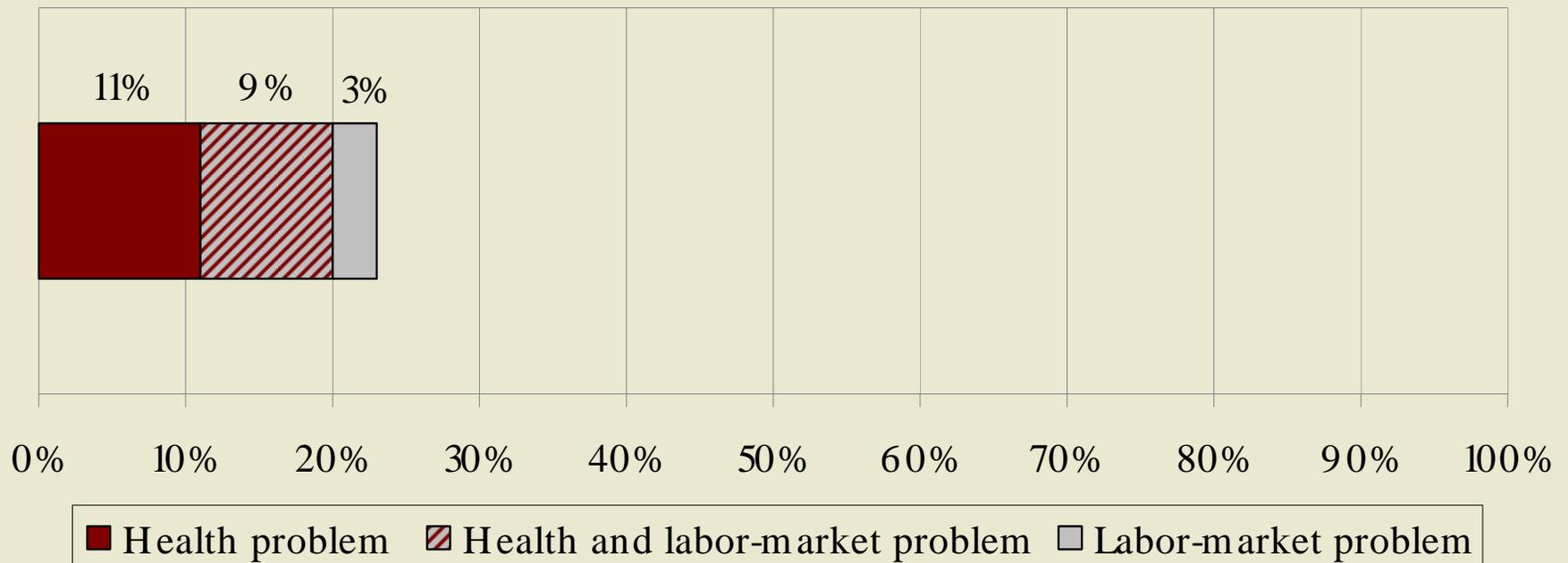


*Note:* Estimates assume all survivor benefits are claimed after the survivor attains the FRA of 66.

*Source:* Steven A. Sass, Wei Sun, and Anthony Webb. 2008 forthcoming. "Why Do Married Men Claim Social Security Benefits So Early? Ignorance, Caddishness, or Something Else?" *Issue in Brief*. Chestnut Hill, MA: Center for Retirement Research at Boston College.

# Raise the EEA: By itself, it exacerbates hardship for some.

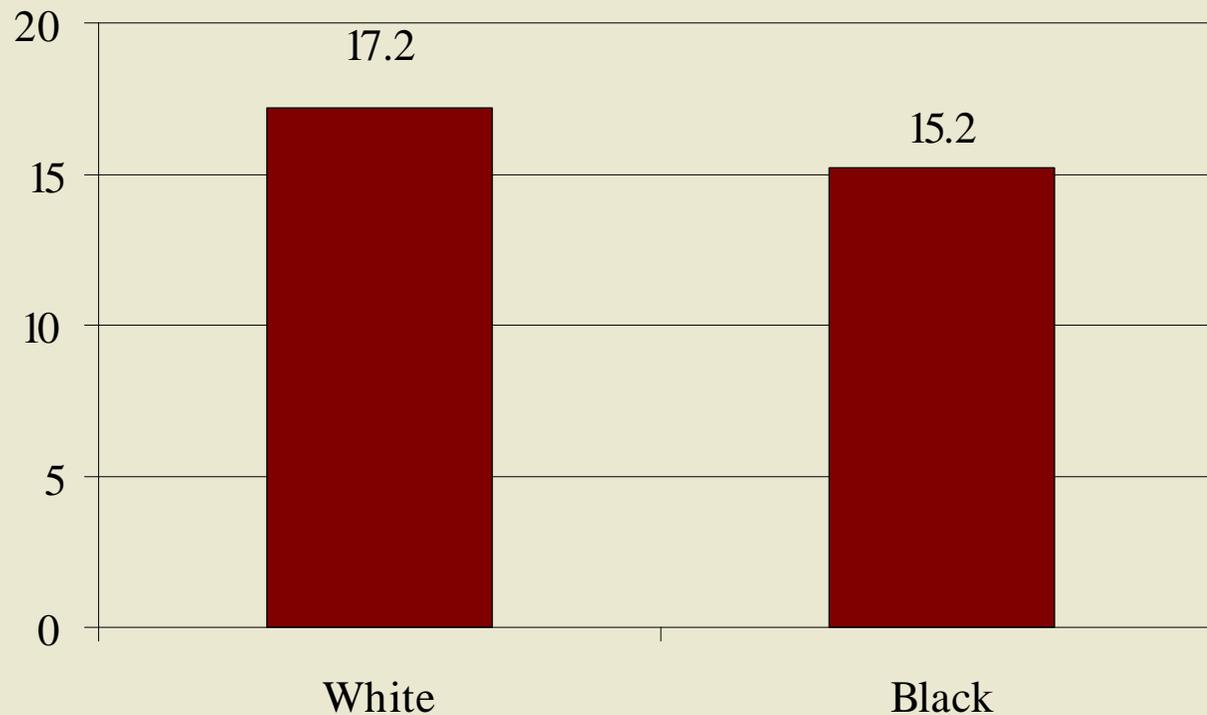
Men Without Resources to Support Themselves Without Working from 62 to 64 With a Health and/or Labor-Market Problem, Percent of All Men, 1992-2004



Source: Natalia Zhivan, Steven Sass, Margarita Sapozhnikov, and Kelly Haverstick. 2008 (forthcoming). "The Elastic EEA: A New Approach to Raising Social Security's Earliest Eligibility Age." *Issue in Brief*. Chestnut Hill, MA: Center for Retirement Research at Boston College.

# Raise the EEA: By itself, it hurts some people through unfairness.

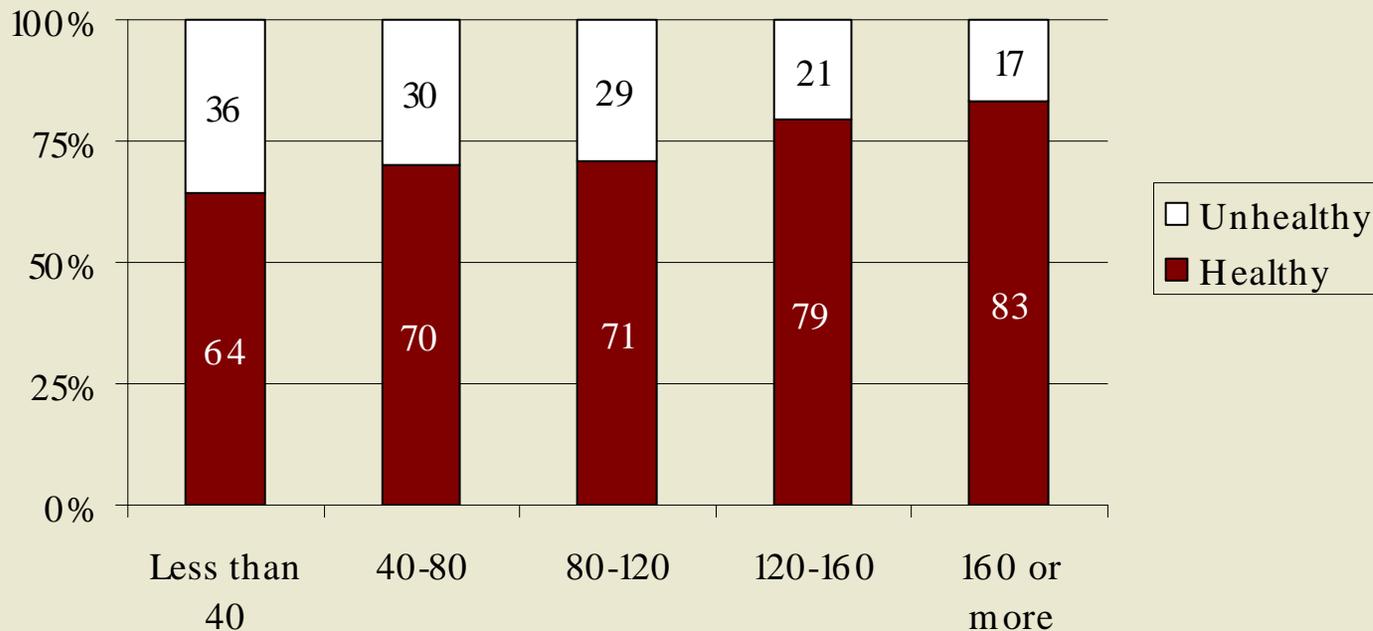
Male Life Expectancy at Age 65, 2004



Source: National Center for Health Statistics. 2007. "Health, United States, 2006 With Chartbook on Trends in the Health of Americans." Hyattsville, MD: National Center for Health Statistics.

# An “Elastic EEA” based on quarters of coverage would not solve the problem.

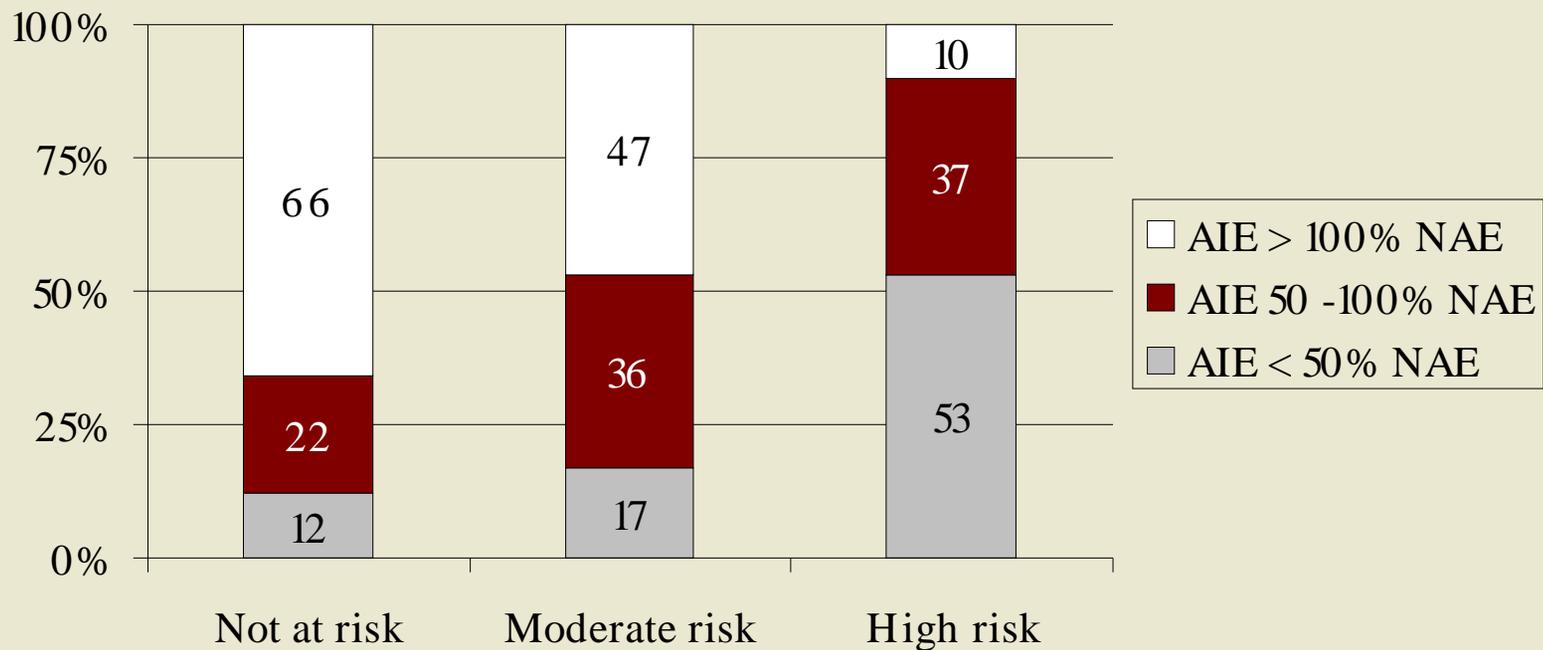
Percent of Individuals by Health Status and Number of Covered Quarters, 1992-2004, HRS



Source: Kelly Haverstick, Margarita Sapozhnikov, Robert Triest, and Natalia Zhivan. 2007. “A New Approach to Raising Social Security’s Earliest Eligibility Age.” Working Paper 2007-19. Chestnut Hill, MA: Center for Retirement Research at Boston College.

# But an “Elastic EEA” based on average lifetime earnings has potential.

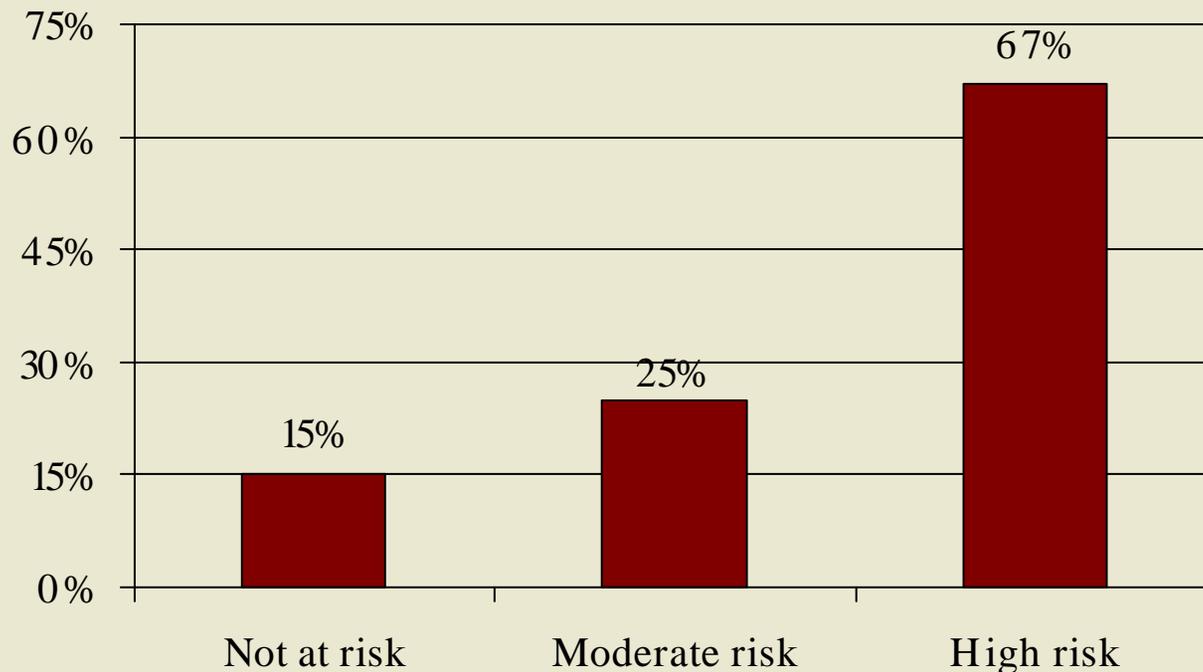
Percent of Men with Specified Levels of Earnings at Age 55, by Hardship Risk, 1992-2004\*



Source: Natalia Zhivan, Steven Sass, Margarita Sapozhnikov, and Kelly Haverstick. 2008 forthcoming. “The Elastic EEA: A New Approach to Raising Social Security’s Earliest Eligibility Age.” *Issue in Brief*. Chestnut Hill, MA: Center for Retirement Research at Boston College.

# An “Elastic EEA” based on average lifetime earnings would protect those most at risk.

Percent of Men in Each Hardship Risk Group with an EEA Less than 63



Source: Natalia Zhivan, Steven Sass, Margarita Sapozhnikov, and Kelly Haverstick. 2008 forthcoming. “The Elastic EEA: A New Approach to Raising Social Security’s Earliest Eligibility Age.” *Issue in Brief*. Chestnut Hill, MA: Center for Retirement Research at Boston College.

# Conclusion

- Most people should work longer and claim Social Security benefits later.
- To achieve these goals, the Social Security Administration could:
  - Educate workers on the advantages of delayed claiming.
  - Support higher hurdles to early claiming by focusing on needs of spouses.
  - Support raising the Early Eligibility Age while protecting those at risk.